

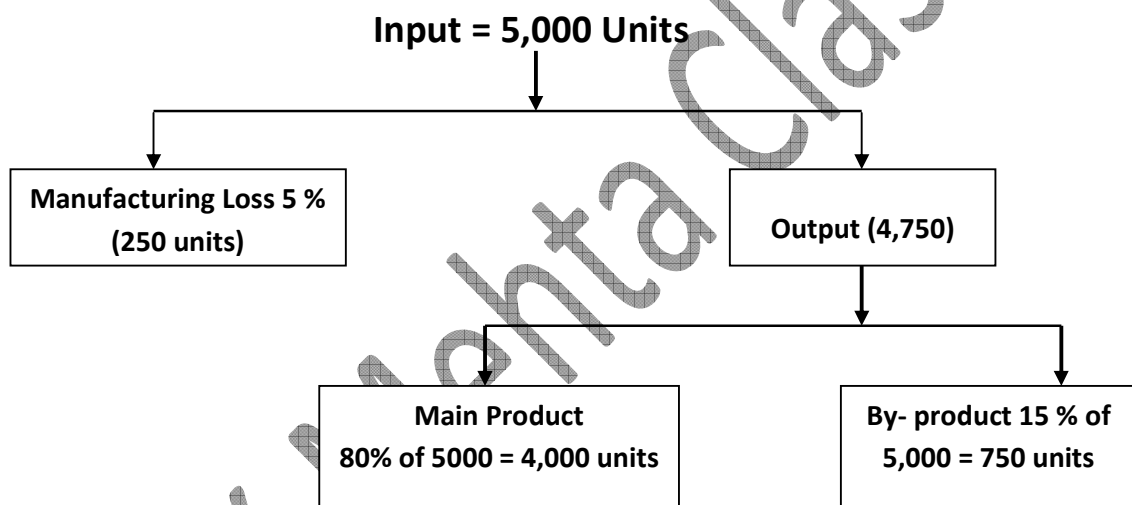
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| CMA TEST- 9 (Solution) | | |
|-------------------------------|--|--|

| | | |
|------------------------|--|-----------------------|
| Time Allowed: 50 Mint. | | Total Marks: 30 Marks |
|------------------------|--|-----------------------|

Answer to Question no.1:

- 1) Under the normal circumstances, the output of one process is transferred to next process at cost price. In other words, no profit is added while transferring the output to the next process.
- 2) However, if some amount of profit is considered while transferring the output to the next process. The profit so incorporated consider is known as "Inter-Process Profits".
- 3) The amount of profit which is to be considered is decided on the basis of prevailing market conditions or the conditions prevailing in the particular industry.
- 4) Objectives of inter process profits:-
 - a) To ascertain whether the cost of production computes with the market prices.
 - b) To enable the transferee process to stand on its own efficiency..

Answer to Question no.2:



Statement showing the cost related to 750 units of by-product

| Particulars | ₹ |
|---|---------------|
| 1. Raw Material Cost $\left(\frac{5,000 \text{ Units} \times 23.75}{4,750 \text{ Units}} \right)$ | 18,750 |
| 2. Other Charges (Total 14,250) | |
| Power $\left(14,250 \times \frac{1}{3} \right) \times \frac{9}{19}$ | 2,250 |
| Balance $\left(14,250 \times \frac{2}{3} \right) \times \frac{750}{4,750}$ | 1,500 |
| | 22,500 |

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Answer to Question no.3:

Process III A/c

| Particulars | Units | Amount (₹) | | Units | Amount (₹) |
|-------------------------|---------------|-----------------|----------------|---------------|-----------------|
| To Opening W.I.P. | 2,000 | 25,750 | By Normal Loss | 2,500 | 7,500 |
| To Process II A/c | 53,000 | 4,11,500 | By Process IV | 48,000 | 7,19,750 |
| To Direct Materials | | 1,97,600 | By Closing WIP | 5,000 | 61,500 |
| To Direct Wages | | 97,600 | | | |
| To Production Overheads | | 48,800 | | | |
| To Abnormal Gain | 500 | 7,500 | | | |
| | 55,500 | 7,88,750 | | 55,500 | 7,88,750 |

$$\begin{aligned} \text{Normal Loss} &= \frac{5}{100} [\text{Opening WIP} + \text{Units from Process II} - \text{Closing WIP}] \\ &= \frac{5}{100} (2,000 + 53,000 - 5,000) = 2,500 \text{ units} \end{aligned}$$

Statement of Equivalent Production (FIFO)

| Units In | Particulars | Units Out | Material (1) | | Material (2) | | Labour | | Overhead | |
|---------------|--------------------------|---------------|--------------|---------------|--------------|---------------|--------|---------------|----------|---------------|
| | | | % | Quantity | % | Quantity | % | Quantity | % | Quantity |
| 2,000 | Op. WIP, completed | 2,000 | — | — | 20 | 400 | 40 | 800 | 400 | 800 |
| 53,000 | Introduced and completed | 46,000 | 100 | 46,000 | 100 | 46,000 | 100 | 46,000 | 100 | 46,000 |
| | Transferred | 48,000 | | | | | | | | |
| | Normal Loss | 2,500 | — | — | — | — | — | — | — | — |
| | Closing WIP | 5,000 | 100 | 5,000 | 70 | 3,500 | 50 | 2,500 | 50 | 2,500 |
| | Abnormal Gain | (500) | 100 | (500) | 100 | (500) | 100 | (500) | 100 | (500) |
| 55,000 | | 55,000 | | 50,500 | | 49,400 | | 48,800 | | 48,800 |

Statement of Cost per unit

| Type of Cost | Amount (₹) | Equivalent Units | Cost per unit (₹) |
|-----------------|------------|------------------|-------------------|
| Material (1) | 4,11,500 | | |
| (-) Normal loss | 7,500 | 50,500 | 8 |
| Material (2) | 1,97,600 | 49,400 | 4 |
| Labour | 97,600 | 48,800 | 2 |
| Overheads | 48,800 | 48,800 | 1 |

Statement of Value of Equivalent Production

| | | | | | |
|----------------------------|--------------|--------|---|----------|----------|
| Opening WIP, now completed | Material (1) | — | 8 | — | |
| | Material (2) | 400 | 4 | 1,600 | |
| | Labour | 800 | 2 | 1,600 | |
| | Overhead | 800 | 1 | 800 | 4,000 |
| Introduced and completed | Material (1) | 46,000 | 8 | 3,68,000 | |
| | Material (2) | 46,000 | 4 | 1,84,000 | |
| | Labour | 46,000 | 2 | 92,000 | |
| | Overhead | 46,000 | 1 | 46,000 | 6,90,000 |
| Abnormal Gain | Material (1) | 500 | 8 | 4,000 | |
| | Material (2) | 500 | 4 | 2,000 | |
| | Labour | 500 | 2 | 1,000 | |
| | Overhead | 500 | 1 | 500 | 7,500 |
| | Material (1) | 5,000 | 8 | 40,000 | |
| | Material (2) | 3,500 | 4 | 14,000 | |

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| Closing WIP | Labour | 2,500 | 2 | 5,000 | |
| | Overhead | 2,500 | 1 | 2,500 | 61,500 |

Computation of Total Cost of 48,000 units transferred to Process IV

| | | | |
|--------------------------------------|--------------|-----------------|-----------------|
| 2,000 units of Opening WIP | | | |
| – Cost already incurred | 25,750 | | |
| – Cost now incurred | <u>4,000</u> | 29,750 | |
| 46,000 Units out of introduced units | | <u>6,90,000</u> | <u>7,19,750</u> |

Answer to Question no.4:

Computation of Joint Cost and separates Cost

| Particulars | Joint Cost | Separate Cost | | |
|----------------------------|----------------|-----------------------|----------------------|----------------------|
| | | Deptt. Q Product A | Deptt.R Product B | Deptt.S Product C |
| Raw material | 12,68,800 | | | |
| Direct wages | 3,84,000 | 96,000 | 64,000 | 36,000 |
| Factory Overhead(4,64,000) | 3,07,200 | 76,800 | 51,200 | 28,800 |
| | 19,6000 | 1,72,800 | 1,15,200 | 64,800 |

a) Statement showing distribution of Joint cost (Physical Unit Method)

| Product | Quantity | Joint Cost |
|--------------|----------------------|------------------|
| A | 44,000 kgs. | 8,29,231 |
| B | 40,000 kgs. | 7,53,846 |
| C | 20,000 kgs. | 3,76,923 |
| Total | 1,04,000 kgs. | 19,60,000 |

b) Statement showing Profit or loss if the product are sold without further processing:-

| Product | Joint Cost (Total Cost) | Sale value at split off stage | Profit |
|---------|-------------------------|-------------------------------|------------|
| A | 8,29,231 | 44,000 × ₹20 = 8,80,000 | 50,769 |
| B | 7,53,846 | 40,000 × ₹22 = 8,80,000 | 1,26,154 |
| C | 3,76,923 | 20,000 × ₹10 = 2,00,000 | (1,76,923) |
| | 19,60,000 | | NIL |

c) Statement showing Profit or loss if the product are sold after further processing:-

| Product | Joint Cost | Separate cost | Total cost | Sales value | Profit |
|---------|------------|---------------|------------|-------------|-----------------|
| A | 8,29,231 | 1,72,000 | 10,02,031 | 14,08,000 | 4,05,969 |
| B | 7,53,846 | 1,15,200 | 8,69,046 | 9,60,000 | 90,954 |
| C | 3,76,923 | 64,800 | 4,41,723 | 3,20,000 | (1,21,723) |
| | | | | | 3,75,200 |

d) In order to improve the profitability of the company, it is advised to sell product B at split off stage whereas Product A and C are recommended to be sold after further processing.

e) The amount of total profit as per above recommendation is computed below:-

| Product | Profit |
|---------|------------------|
| A | 4,05,969 |
| B | 1,26,254 |
| C | (1,21,723) |
| | ₹4,10,400 |